

Message Text

CONFIDENTIAL POSS DUPE

PAGE 01 JAKART 02976 121123 Z

50

ACTION XMB-07

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-09 NSAE-00 RSC-01 TRSE-00 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 IGA-02 RSR-01 INT-08 OEP-01

NSC-10 SS-14 STR-08 CEA-02 L-03 H-02 PA-03 PRS-01

USIA-12 T-03 /154 W

----- 027983

R 121000 Z MAR 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 5938

C O N F I D E N T I A L JAKARTA 2976

E. O. 116 52: GDS

TAGS: EFIN, ID

SUBJECT: MEDIUM- TERM BORROWING AND EX- IM LENDING

REF: JAKARTA 2841

BEGIN SUMMARY: EMIL SALIM, DEPUTY CHAIRMAN OF BAPPENAS, COMPLAINS THAT EX- IM OFFER OF FINANCING FOR CILACAP REFINERY JEOPARDIZES IMF INFLUENCE AND UNDERCUTS TECHNOCRATS' EFFORTS IMPROVE DISCIPLINE IN MEDIUM- TERM BORROWING. END SUMMARY.

1. EMIL SALIM TOLD USAID DIRECTOR HE BOTHERED BY CONTRADICTIONS IN U S POSITION ON MEDIUM- TERM BORROWING ISSUE. ON ONE HAND U S APPEARED SUPPORT IMF AND TECHNOCRATS AND HELD UP SIGNING OF PROGRAM LOAN OVER MEDIUM- TERM BORROWING ISSUE. ON OTHER HAND, MR. KEARNS, PRESIDENT EX- IM BANK, HAD COME TO INDONESIA THIS WEEK AND, ACCOMPANIED BY AMBASSADOR, HAD OFFERED A HUGE LOAN ON 15- YEAR TERMS. SALIM SAID HE FELT "SQUEEZED" ON THIS ISSUE, NOT ONLY WITHIN GOI, BUT NOW BY THE U S GOVERNMENT ITSELF.

2. CASHIN REPLIED THAT EX- IM PROVISIONAL COMMITMENT LETTER CONTAINED CONDITION THAT THE LOAN SHOULD BE IN CONFORMANCE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 02976 121123 Z

WITH ANY AGREEMENT ON EXTERNAL BORROWING BETWEEN THE GOI AND THE IMF. SALIM SAID THIS ONLY SERVED TO PUT THE IMF IN THE ROLE OF VILLAIN. WE NEED THE CEILINGS, HE SAID, IN ORDER TO KEEP CONTROL OF DEBT SERVICE OBLIGATIONS AND TO ASSURE EFFECTIVE MANAGEMENT OF THE OVERALL ECONOMY, AND IT WILL WEAKEN THE POSSIBILITIES FOR MAINTAINING DISCIPLINE IF IT IS MADE TO APPEAR THAT THEY ARE IMPOSED ON INDONESIA BY THE IMF. IN ANY EVENT, EVERYBODY KNOWS THE LOAN WOULD BE IN VIOLATION OF THE IMF STANDBY BECAUSE THE BORROWING CEILING HAS ALREADY BEEN EXCEEDED.

3. CASHIN SAID WE SAW SITUATION AS ONE IN WHICH AMBITIONS AND OPPORTUNITIES FOR INVESTMENT IN INDONESIA WERE MOUNTING TO A POINT THAT COULD NOT BE MET BY CONCESSIONAL FINANCING ALONE, PARTLY BY REASON OF SHEER VOLUME, PARTLY BECAUSE CONVENTIONAL CONCESSIONAL FINANCING WAS NOT GENERALLY AVAILABLE FOR OIL SECTOR. IN THE PAST CONCESSIONALLY- FINANCED PROGRAMS HANDLED BY BAPPENAS AND COMMERCIALLY FINANCED PROGRAMS MAINLY BY PERTAMINA, AND THERE HAD BEEN LITTLE EFFECTIVE COMMUNICATION OR EXCHANGE OF INFORMATION BETWEEN THOSE SPHERES OF ACTIVITY. PERTAMINA BORROWING NOW REQUIRED FACING UP TO THIS SITUATION. INDONESIA NEEDED BOTH CONCESSIONAL AND COMMERCIAL CAPITAL. WHAT IS REQUIRED IS A FULLER SHARING OF INFORMATION AND A MEANS FOR REACHING DECISIONS WITHIN THE INDONESIAN GOVERNMENT WHICH CAN TAKE ALL ASPECTS OF NATIONAL ECONOMIC MANAGEMENT ADEQUATELY INTO ACCOUNT. THERE WOULD APPEAR TO BE PROJECTS WHICH, IF FINANCED ON SUITABLE TERMS AND EFFICIENTLY ADMINISTERED, WOULD NOT ADD TO INDONESIA'S NET DEBT BURDEN AND COULD EVEN CONTRIBUTE F/X EARNINGS. WE DID NOT SEE THE BORROWING CEILING AS NECESSARILY FIXED, AND THE PROPER LEVEL OF SUCH BORROWING WOULD DEPEND IMPORTANTLY ON WHAT PROJECTS WERE UNDERTAKEN AND HOW WELL THEY WERE MANAGED.

4. SALIM AGREED BUT SAID THAT HE DID NOT SEE ANY QUANTUM JUMP IN THE BORROWING CEILING IN PROSPECT. THEY HAD IN FACT BEEN SEARCHING FOR SOME MEANS FOR INTEGRATING DECISION- MAKING IN CONCESSIONAL AND COMMERCIAL BORROWING, BUT HAD NOT FOUND ANY SATISFACTORY ANSWER. UNTIL THEY FOUND SOME SOLUTION IT WAS NOT HELPFUL TO HAVE THE U S GIVING CONFLICTING SIGNALS BY EXTENDING OFFERS OF LOANS ON COMMERCIAL TERMS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 02976 121123 Z

5. COMMENT: SALIM'S COMMENTS PARA 4 REFLECT PROBLEM OF INADEQUATE COMMUNICATION AND COORDINATION BETWEEN TECHOCRATS AND PERTAMINA ON LATTER'S FUTURE FINANCING

REQUIREMENTS. OUR CONCERN NOW IS THAT UNPRODUCTIVE CON-
FRONTATION MAY DEVELOP BETWEEN GENERAL IBNU AND TECHNOCRATS
BECAUSE LATTER MAY ENVISAGE STANDBY CEILING LEVEL WHICH
COULD PROVE UNREALISTIC IN TERMS OF POSSIBLY
JUSTIFIABLE PERTAMINA FINANCING REQUIRMENTS, E. G., FOR LNG
AND CILACAP REFINERY PROJECTS. EFFORTS TO ENCOURAGE MORE
DIRECT IBNU/ TECHNOCRATIC CONSULTATIONS (OR AT LEAST
BETTER INDIRECT UNDERSTANDING) APPEAR NEEDED.
GALBRAITH

CONFIDENTIAL

*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 12 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973JAKART02976
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GDS
Errors: n/a
Film Number: n/a
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730324/aaaahlbr.tel
Line Count: 128
Locator: TEXT ON-LINE
Office: ACTION XMB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 73 JAKARTA 2841
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 21 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Nov-2001 by martinml>; APPROVED <17-Dec-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 971118
Subject: MEDIUM- TERM BORROWING AND EX- IM LENDING
TAGS: EFIN, ID
To: SECSTATE WASHDC
XMB
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005